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*Michigan Health Market Review 2018, Part Two finds:***Michigan hospitals and health insurers report improved profits, driven by continued consolidation and coverage expansions of the Affordable Care Act**

Hospitals across the state continue to enjoy growing profitability, benefiting from the increased number of persons gaining Medicaid and individual coverage. Yet, hospital systems are increasingly dependent on Medicare and Medicaid and especially vulnerable to proposed reductions in those programs. In the first nine months of 2018, Michigan health plans enjoyed improved profitability and growing enrollment.

Part Two of *Michigan Health Market Review 2018*, released today, presents these findings and an examination of the competitive strategies of hospital systems in the state. Using 2017 data from Medicare cost reports and other sources, the report analyzes hospital finances and inpatient utilization for all general acute care hospitals in the Detroit area and 65 hospitals in other parts of the state. It also reports enrollment growth and profitability for Michigan health plans through September 2018. **Here are the key findings in the new report:**

- **Although their operating income decreased in 2017, Detroit area hospitals enjoyed a large increase in non-operating revenues and 3.7% higher net income.** These hospitals, almost all of them organized into six large systems, had net income of \$679.3 million in 2017, or 5.5% of net patient revenues of \$12.462 billion. Their operating income decreased from \$238.6 million in 2016 to \$165.6 million, but they had \$554 million in other revenues, including investments, philanthropy and government grants. This is the fourth straight years where these hospitals had combined profits or more than a half billion dollars. **Two large systems reported major swings in net income.** After three straight years of growing profitability, the **Beaumont Health** system, the largest in the region, saw its net income drop by 25%, from \$360.5 million in 2016 to \$271.8 million in 2017. The **Ascension/St. John** hospitals doubled their net income from \$65.7 million in 2016 to \$134.4 million in 2017.
- **Net income for hospitals in other parts of the state increased by about 35% in 2017, on top of an increase of 32.3% in 2016.** Our analysis of data for 65 hospitals outside of the Detroit area showed that they had net income of \$1.488 billion in 2017, or 8.6% of net patient revenues, up from \$1.104 billion in 2016. While their operating losses grew sharply in 2017, their other revenues grew even faster. increased their combined net income by 32.3% in 2016, from \$845.5 million to \$1.104 billion. Three of the largest outstate systems had margins of 10% or more: **McLaren Health Care** (10.6%), **Trinity**

Health (17.2%) and University of Michigan Health, including MetroHealth in Kent County and the five Mid-Michigan hospitals (10%).

- **inpatient hospital days increased slightly for Detroit area hospitals for 2017 but are still 10% less than at their peak in 2007.** In 2007, Detroit-area hospitals provided 2.5 million days of inpatient care, but that number has declined almost every year since. The number of inpatient days covered by Medicaid has increased since 2014 when Michigan expanded Medicaid eligibility to more than 600,000 single adults without children. In 2017, Medicare and Medicaid paid for 79.1% of inpatient days in Detroit-area hospitals.
- **21 Michigan provider organizations have contracted with Medicare Accountable Care Organization program, and 11 of them earned shared savings.** In 2017, Michigan ACOs had a total of 511,000 enrolled beneficiaries and earned shared savings of \$69.5 million.
- **Enrollment in HMOs increased slightly in the first three quarters of 2018.** Michigan HMOs added 6,000 enrollees, and Blue Cross Blue Shield Mutual added 38,000 enrollees. **Health plan profitability was much improved in 2018.** HMOs had net income of \$410 million in the first nine months of 2018 compared to \$313 million in the same period a year earlier. **Blue Cross Blue Shield** improved its net income from \$357.2 million in the first three quarters of 2017 to \$648 million in 2018.

Part One of *Michigan Health Market Review 2019* will be released in June. The 2019 report will be the 23rd annual edition of our Michigan market analysis, which we first published in 1997.

ALLAN BAUMGARTEN'S HEALTH MARKET REVIEWS AND CONSULTING

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Contact: Allan Baumgarten,

Cell: 952/212-8589, Office: 952/925-9121

Email: Baumg010@umn.edu Twitter: @AllanBaumgarten

Release

Michigan Health Market Review 2018 Finds:

Led by Blue Cross Blue Shield Companies,

Michigan Health Plans Report Record Profits and Higher Enrollment

(Detroit/Ann Arbor/Lansing) Driven by very strong results for Blue Cross Blue Shield and its HMOs, Michigan health plans reported record high profits in 2017. These findings and others are reported in Part One of Allan Baumgarten's *Michigan Health Market Review 2018*, released here today. This is the 22nd edition of the report examining Michigan's health care payer and provider markets.

Baumgarten, an independent analyst based in Minneapolis, also publishes market reports in seven other states. The Part Two report for Michigan, to be released later this year, will analyze the financial performance, inpatient utilization and competitive strategies of the state's hospital systems, æ

Key findings in this new report:

- **Michigan HMOs recorded their highest profits in history: net income of \$452.1 million in 2017, or 2.6% of underwriting revenues.** That was 50% higher than their net income in 2016. The **Blue Cross Blue Shield HMOs (Blue Care Network and Blue Cross Complete** for Medicaid) had combined net income of \$257.4 million, or 5.8% of underwriting revenues. **Priority Health**, which now covers the entire Lower Peninsula and is the second largest HMO, improved its net income to \$91.5 million, or 2.6%.
- **Blue Cross Blue Shield Mutual of Michigan**, which had lost \$226 million in 2016, enjoyed a swing of nearly half a billion dollars, posting net income of \$295.2 million. While it still lost money on its commercial plans, it was very profitable on its Medicare Advantage and Medicare Supplement plans.
- **Premiums grew faster than medical expenses for commercial plans (employer groups and individuals), and HMOs improved underwriting income on those plans from \$12 million in 2016 to \$203.2 million in 2017.** **Blue Care Network** reported commercial plan profits of \$155.9 million, up from \$29.2 million in 2016.
- **Medicaid plans, now the largest line of business for Michigan HMOs, though still profitable, saw their underwriting income drop by 25% in 2017.** Underwriting income for Medicaid HMOs fell from \$298 million in 2015 to \$165.4 million in 2016 and \$122.5 million in 2017. Still **Molina Healthcare** posted a 3.8% margin on its Medicaid business, and **Blue Cross Complete** and **McLaren Health** had 2.8% margins on their Medicaid plans.
- **Enrollment growth for Michigan HMOs slowed in 2017.** After increasing by 4.9% in 2016, enrollment in Michigan HMOs grew 1.4% in 2017, reaching 3.4 million. HMO Medicare plans added 36,000 new members, and 42.7% of Medicare enrollees are now in a Medicare Advantage plan. Medicaid plans added almost 23,000 lives, and **Meridian Health, Molina Healthcare** and **UnitedHealthcare Community Plan** are the three largest Medicaid plans.
- **After significant growth in 2014, 2015 and 2016, enrollment in individual plans here has begun to decline in 2017.** Individual enrollment grew to 426,000 at the beginning of 2017, but

declined during the year to 358,000, most of them in HMOs now. **Blue Care Network, Blue Cross Blue Shield** and **Priority Health** are now the largest individual plans here. Premium increases for individual plans for 2018 averaged 27.6%, much higher than in previous years. While some plans have exited that market, some others have expanded their service regions, including **Meridian Health** and **McLaren Health**.

Excerpts from the report, including the useful "Michigan HMOs at a Glance" page can be viewed at www.AllanBaumgarten.com. A subscription to *Michigan Health Market Review 2018*, including both Parts One and Two, can be ordered online at <http://store.allanbaumgarten.com/productlist.php?category=7> Or call 952/925-9121; E-mail address: Baumg010@umn.edu

www.AllanBaumgarten.com

4800 West 27th Street

Minneapolis, MN 55416

952/925-9121 Cell: 952/212-8589

E-Mail: baumg010@umn.edu

[Twitter @AllanBaumgarten](https://twitter.com/AllanBaumgarten)
